

---

# Report on the State of Financial Inclusion in the Philippines

---



**BANGKO SENTRAL NG PILIPINAS**

Inclusive Finance Advocacy Staff  
Supervision and Examination Sector

## Background

As the Bangko Sentral ng Pilipinas (BSP) brings its financial inclusion agenda to new heights, an increasing number of questions are being asked about the inclusiveness of the Philippine financial system – from the most fundamental: “How many Filipinos have access to formal financial services?”, “Is financial access translating into actual usage?” to the more complex: “Are existing financial products relevant, of good quality and responsive to the needs of financial consumers?”, “Does financial inclusion make a positive difference on the lives of the Filipino people?”

There is indeed a need for data and evidence to effectively answer these questions. This is the reason why the BSP continues to advance its initiative of building a comprehensive and robust data framework that will allow it to monitor progress, identify gaps, establish priorities and craft evidence-based financial inclusion policies.

The 2013 Report on the State of Financial Inclusion in the Philippines, the third since the maiden release in 2011, forms part of the stocktaking process under this data initiative. It builds on the data elements presented in the previous status reports and serves as an inventory of the progress made from 2012 to 2013. While it cannot answer all the questions raised above, it hopes to provide a broader understanding of where the Philippines is in terms of expanding access and use of formal financial products and services. The scope of this report is confined to supply-side information gathered from regulatory reports provided by supervised institutions to the BSP. Work is underway for a national baseline survey that will measure financial inclusion from the demand side and provide first-hand information on the quality and welfare dimensions of financial inclusion.

The 2013 status report highlights the results so far in the BSP’s pioneering measures to promote greater financial inclusion in the country. These include the expansion of the physical reach of banks through the so-called micro-banking offices (MBOs), extended virtual reach through electronic money (e-money) and wider range of affordable financial products through microfinance. The report also features the financial inclusion indicators for the Philippines, using the tools developed by the Alliance for Financial Inclusion (AFI) and the G20 through its Global Partnership for Financial Inclusion (GPFI).

This report is structured as follows: Section I describes the financial access situation by discussing the reach of banks and other access points. Section II tackles the use of financial products and services, using available information on deposits, loans, microfinance and e-money. Section III presents the key indicators of financial inclusion and analysis of the link between access and usage. The last section concludes by summarizing the main takeaways from the report.

## Highlights

### Access

- The Philippine banking system's overall physical network continues to expand. In 2013, there were 9,884 banking offices and 14,528 automated teller machines (ATMs) in the country. These numbers translate to a year-on-year growth rate of 5% in the number of banking offices and 19% in ATM count.



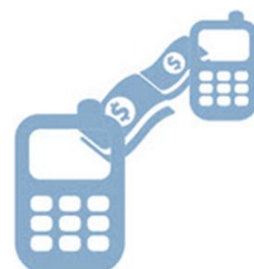
- From 611 unbanked local government units or LGUs (i.e., cities and municipalities) in 2012, 8 more LGUs lost banking presence in 2013 but this was offset by 15 LGUs that gained banking presence, resulting to a net count of 604 unbanked LGUs in 2013. In 11 out of 15 LGUs that became banked in 2013, the establishment of other banking offices (OBOs) and micro-banking offices (MBOs) was the reason for the banking presence.<sup>1</sup>



- The number of operating MBOs went up by 26% to 465 in 2013 from 370 in 2012. MBOs are effectively serving the banking needs of poor and low income clients, especially those who are living in the countryside. The number of LGUs that do not have a regular bank branch but are being served by MBOs increased to 56 LGUs in 2013 from 50 LGUs in 2012.

- Other financial service providers (FSPs)<sup>2</sup> remain important access points of financial services especially in areas where banking presence is either lost or not yet established. Data showed that other FSPs are present in LGUs that lost banking presence in 2013. Also, 398 out of 604 unbanked LGUs have access to other FSPs. This means that only 206 LGUs (equivalent to 13% of 1,634 LGUs and 4% of the total Philippine population) are left unserved.

- The number of e-money issuers (EMIs) continues to increase. A year after the issuance of e-money rules and regulations in 2009, there were 21 registered EMIs. Three years later, the number of EMIs increased by 52% to 32 EMIs in 2013. The number of e-money agents has experienced remarkable growth as well, with 10,620 active agents in the span of 4 years.



<sup>1</sup> BSP Circular 694 dated October 2010 set the provisions in the establishment of OBOs and MBOs.

<sup>2</sup> Other FSPs include non-stock savings and loans associations (NSSLAs), credit cooperatives, pawnshops and other nonbank financial institutions (NBFIs), remittance agents, money changers/ foreign exchange dealers and electronic money (e-money) agents.

- Microfinance remains an integral component of increasing access to finance among poor and low income households. While the number of banks with microfinance operations slightly decreased to 182 banks in 2013 from 187 banks in 2012, it is interesting to note that there is an increasing number of institutions that are offering micro-deposit accounts (69 banks in 2013 from 58 banks in 2012) and with no objection notice from the BSP to issue microinsurance (81 banks in 2013 from 72 banks in 2012).

### Usage

- The total number of deposit accounts in banks went up by 9% to 45.4 million accounts in 2013 from 41.8 million accounts in 2012. In terms of amount, the total peso value of bank deposits rose by 32% to P7.6 trillion in 2013 from P5.7 trillion in 2012. While growth is driven by an increase in the higher brackets of deposit amounts, it is worth mentioning that deposits from small savers also piled up. The number of deposit accounts below P15,000 increased by 8% to 34.1 million in 2013 from 31.6 million in 2012, and these accounts comprised 75% of all deposit accounts in banks.
- Deposits in non-bank financial institutions also increased, although at a slower pace. The deposit liabilities of non-stock savings and loans associations or NSSLAs grew by 2% to P23.3 billion in 2013 from P22.9 billion in 2012.



- The total loan portfolio of the banking system expanded by 27% to P4.25 trillion in 2013 from P3.34 trillion in 2012. The microfinance loan portfolio of banks with microfinance activities, on the other hand, grew by 3% to P8.7 billion in 2013 from P8.4 billion in 2012.
- The number of registered e-money accounts increased by 34% to 26.7 million accounts in 2013 from 19.9 million accounts in 2010. The e-money accounts in 2013 was composed of 8 million mobile wallets and 18.7 million cash cards. The number of e-money transactions has also significantly grown over the years. From 138 million transactions in 2010, the number of transactions that passed through e-money jumped by 57% to 217 million transactions in 2013. In terms of amount, the total value of e-money transactions rose by 58% to P348 billion<sup>3</sup> in 2013 from P220.5 billion in 2010.



<sup>3</sup> Average of P350 billion e-money inflows and P346 billion outflows.

## ACCESS

### Number and Physical Reach of Banking Offices and ATMs

- The number of banking offices in the country increased by 5% to 9,884 in 2013 from 9,375 in 2012.<sup>4</sup>
  - Growth was highest among thrift banks (TBs) where number of banking offices climbed by 13%. Stand-alone TBs experienced higher growth than linked TBs. TBs expanded their reach from 22% to 25% of the country's 1,634 local government units or LGUs (i.e., cities and municipalities).
  - The number of universal and commercial banks (U/KBs) increased by 6%, but there was a modest improvement in the percentage of LGUs that they were able to reach which indicates they are basically expanding in areas that are already banked.
  - While there was no change in the net count of rural banks (RBs) and there was a slight decrease in their physical reach, they remained at the forefront of providing financial services to the countryside. RBs are present in around 59% of the country's LGUs, way higher than the reach of U/KBs and TBs.

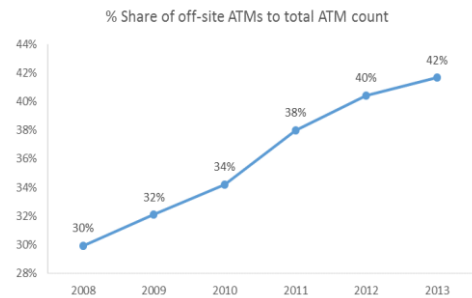
|                                | Banking Offices<br>(Head Offices & Branches) |       |        | % of cities and<br>municipalities reached |       |
|--------------------------------|--|-------|--------|---|-------|
|                                | 2012   | 2013  | Growth | 2012                                      | 2013  |
| Universal and Commercial Banks | 5,110  | 5,410 | 6%     | 18.8%                                     | 19.5% |
| Thrift Banks                   | 1,619  | 1,828 | 13%    | 22.0%                                     | 24.7% |
| Rural and Cooperative Banks    | 2,646  | 2,646 | 0%     | 59.0%                                     | 58.8% |
| Total                          | 9,375  | 9,884 | 5%     | 62.6%                                     | 63.0% |

- The number of automated teller machines (ATMs) increased by 19% to 14,528 in 2013 from 12,224 in 2012.
  - It is interesting to note that ATM growth was highest among RBs, although this is partly because of small base since majority (86%) of ATMs are from U/KBs.

|                                | ATMs   |        |        | % of cities and<br>municipalities reached |       |
|--------------------------------|--------|--------|--------|---|-------|
|                                | 2012   | 2013   | Growth | 2012                                      | 2013  |
| Universal and Commercial Banks | 10,509 | 12,449 | 18%    | 26.7%                                     | 29.0% |
| Thrift Banks                   | 1,471  | 1,740  | 18%    | 15.9%                                     | 18.8% |
| Rural and Cooperative Banks    | 244    | 339    | 39%    | 9.7%                                      | 13.5% |
| Total                          | 12,224 | 14,528 | 19%    | 34.1%                                     | 38.4% |

<sup>4</sup> For purposes of measuring financial inclusion in the Philippines, this report counts only those offices that are located inside the country. If branches of Philippine banks abroad are included, the total number of operating banking units was 9,935 in 2013.

- The physical reach of ATMs is lower than the reach of banking offices, so there is still an opportunity to expand their presence especially now that there is an increasing trend in the number of off-site ATMs.



- In terms of geographical distribution, all regions experienced increase in number of banking offices and ATMs. While distribution remains heavily skewed toward NCR which accounts for 32% of banking offices and 43% of ATMs, there have been remarkable growth rates in other regions. Outside NCR, banks continue to increase in progressive areas such as Davao<sup>5</sup>, but they are also catching up in expanding their presence in less developed regions such as Cagayan, Bicol, MIMAROPA and Caraga.
  - The largest percentage increase in the number of banks was observed in Bicol Region, followed by Davao Region and Cagayan Valley.
  - MIMAROPA and Caraga are in the bottom 3 in terms of ATM count but these regions belong to the top 3 regions with the highest ATM growth from 2012 to 2013.

| Region      |                     | Banks <sup>a</sup> |       |        | ATMs   |        |        |
|-------------|---------------------|--------------------|-------|--------|--------|--------|--------|
|             |                     | 2012               | 2013  | Growth | 2012   | 2013   | Growth |
|             | NCR                 | 2,993              | 3,141 | 5%     | 5,324  | 6,184  | 16%    |
|             | CAR                 | 148                | 150   | 1%     | 162    | 188    | 16%    |
| I           | Ilocos Region       | 413                | 436   | 6%     | 356    | 435    | 22%    |
| II          | Cagayan Valley      | 286                | 310   | 8%     | 165    | 215    | 30%    |
| III         | Central Luzon       | 975                | 998   | 2%     | 1,066  | 1,250  | 17%    |
| IV-A        | CALABARZON          | 1,406              | 1,509 | 7%     | 1,748  | 2,107  | 21%    |
| IV-B        | MIMAROPA            | 206                | 220   | 7%     | 140    | 176    | 26%    |
| V           | Bicol Region        | 315                | 353   | 12%    | 261    | 320    | 23%    |
| VI          | Western Visayas     | 543                | 572   | 5%     | 518    | 621    | 20%    |
| VII         | Central Visayas     | 627                | 653   | 4%     | 921    | 1,104  | 20%    |
| VIII        | Eastern Visayas     | 174                | 183   | 5%     | 181    | 221    | 22%    |
| IX          | Zamboanga Peninsula | 190                | 199   | 5%     | 176    | 210    | 19%    |
| X           | Northern Mindanao   | 328                | 347   | 6%     | 327    | 400    | 22%    |
| XI          | Davao Region        | 355                | 388   | 9%     | 480    | 594    | 24%    |
| XII         | SOCCSKSARGEN        | 195                | 197   | 1%     | 259    | 310    | 20%    |
| XIII        | Caraga              | 201                | 207   | 3%     | 115    | 165    | 43%    |
|             | ARMM                | 20                 | 21    | 5%     | 25     | 28     | 12%    |
| Philippines |                     | 9,375              | 9,884 | 5%     | 12,224 | 14,528 | 19%    |

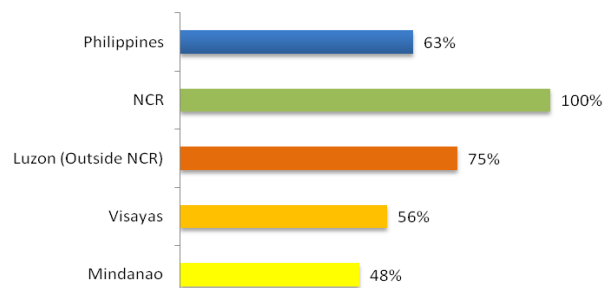
<sup>a</sup> Head offices, regular branches, microfinance-oriented branches, extension offices, other banking offices (OBOs) and micro-banking offices (MBOs).

<sup>5</sup> While the number of banks increased in Davao Region, 2 municipalities lost banking presence in 2013.

## Number and Percent Share of Cities and Municipalities with Banking Presence

- Banking coverage improved in 2013. The number of unbanked cities and municipalities declined to 604 in 2013 from 611 in 2012.
  - Seven regions experienced improvement in terms of reduction in the number of unbanked cities and municipalities. Greatest improvement was observed in Region II (Cagayan Valley) where 4 municipalities gained banking presence. Banking presence is due to the establishment of regular Other Banking Offices (OBOs) of a thrift bank. A general observation among these municipalities is that they have relatively small population.
  - Seven regions showed no improvement. This excludes NCR which is already 100% banked.
  - Two regions (Eastern Visayas and Davao Region) experienced reduced banking presence.

Percentage of cities and municipalities with banking presence



| Region                 | Total no. of cities & municipalities (a) | No. of cities & municipalities with at least one banking office (b) |       | % Share (b/a) |       | Remarks        |
|------------------------|--|---|-------|---------------|-------|----------------|
|                        |  | 2012  | 2013  | 2012          | 2013  |                |
| NCR                    | 17                                       | 17  | 17    | 100%          | 100%  | 100% coverage  |
| CAR                    | 77                                       | 26  | 26    | 33.8%         | 33.8% | No improvement |
| I Ilocos Region        | 125                                      | 90  | 91    | 72.0%         | 72.8% | ↑              |
| II Cagayan Valley      | 93                                       | 69  | 73    | 74.2%         | 78.5% | ↑              |
| III Central Luzon      | 130                                      | 120   | 120   | 92.3%         | 92.3% | No improvement |
| IV-A CALABARZON        | 142                                      | 133   | 134   | 93.7%         | 94.4% | ↑              |
| IV-B MIMAROPA          | 73                                       | 46  | 46    | 63.0%         | 63.0% | No improvement |
| V Bicol Region         | 114                                      | 75  | 75    | 65.8%         | 65.8% | No improvement |
| VI Western Visayas     | 133                                      | 104   | 105   | 78.2%         | 78.9% | ↑              |
| VII Central Visayas    | 132                                      | 84  | 84    | 63.6%         | 63.6% | No improvement |
| VIII Eastern Visayas   | 143                                      | 40  | 39    | 28.0%         | 27.3% | ↓              |
| IX Zamboanga Peninsula | 72                                       | 27  | 28    | 37.5%         | 38.9% | ↑              |
| X Northern Mindanao    | 93                                       | 59  | 60    | 63.4%         | 64.5% | ↑              |
| XI Davao Region        | 49                                       | 39  | 37    | 79.6%         | 75.5% | ↓              |
| XII SOCCSKSARGEN       | 50                                       | 33  | 33    | 66.0%         | 66.0% | No improvement |
| XIII Caraga            | 73                                       | 52  | 52    | 71.2%         | 71.2% | No improvement |
| ARMM                   | 118                                      | 9   | 10    | 7.6%          | 8.5%  | ↑              |
| Philippines            | 1,634                                    | 1,023   | 1,030 | 62.6%         | 63.0% | ↑              |

Legend: ↑ Improvement ↓ Number of unbanked LGUs increased

### With Bank in 2012, Unbanked in 2013

- Eight municipalities lost banking presence in 2013 due to closure of 4 head offices and 4 branches that were operating in these municipalities.<sup>6</sup> These closed banking offices did not seem to pose a considerable threat to financial access because in 7 out of 8 municipalities that went unbanked, there are alternative providers of financial services.

| Region            | Province          | Municipality   | Other Financial Service Providers (FSPs) |              |         |                         |             |  |                |      | Total |
|-------------------|-------------------|----------------|--|--------------|---------|-------------------------|-------------|--|----------------|------|-------|
|                   |                   |                | Savings & Credit                         |              |         | Credit & Other Services |             | Payments and Remittance                      |                |      |       |
|                   |                   |                | NSSLAs                                   | Credit Coops | MF NGOs | Pawnshops               | Other NBFIs | Remittance Agents, Money Changers/FX Dealers | E-money agents | ATMs |       |
| Bicol Region      | Catanduanes       | Bato           | 0  | 3            | 2       | 0                       | 0           | 0  | 0              | 0    | 5     |
| Bicol Region      | Camarines Sur     | Gainza         | 0  | 0            | 0       | 0                       | 0           | 0  | 0              | 0    | 0     |
| Bicol Region      | Masbate           | Mandaon        | 0  | 0            | 0       | 3                       | 0           | 1  | 5              | 0    | 9     |
| Eastern Visayas   | Northern Samar    | Catubig        | 0  | 1            | 1       | 3                       | 0           | 0  | 3              | 0    | 8     |
| Northern Mindanao | Misamis Oriental  | Kinogitan      | 0  | 1            | 0       | 0                       | 0           | 0  | 0              | 0    | 1     |
| Davao Region      | Davao Del Norte   | Braulio Dujali | 0  | 0            | 0       | 0                       | 0           | 0  | 2              | 0    | 2     |
| Davao Region      | Davao Del Sur     | Hagonoy        | 0  | 1            | 1       | 0                       | 0           | 0  | 0              | 2    | 4     |
| Caraga            | Surigao Del Norte | Malimono       | 0  | 1            | 0       | 0                       | 0           | 0  | 1              | 0    | 2     |

### Unbanked in 2012, With Bank in 2013

- Banking presence was established in 15 municipalities that used to be unbanked.<sup>7</sup> In 6 of these municipalities, the establishment of MBO is the reason for the banking presence. In 5 municipalities, OBOs were established. Since these municipalities were previously unbanked, this may suggest that banks are testing these markets by offering non-transactional banking related services through OBOs or by setting up simple banking offices through MBOs.

| Region              | Province            | Municipality          | Reason for banking presence |
|---------------------|---------------------|-----------------------|-----------------------------|
| Ilocos Region       | La Union            | San Juan              | Regular branch              |
| Cagayan Valley      | Cagayan             | Baggao                | Regular OBO                 |
| Cagayan Valley      | Isabela             | Divilican             | Regular OBO                 |
| Cagayan Valley      | Isabela             | Maconacon             | Regular OBO                 |
| Cagayan Valley      | Isabela             | Palanan               | Regular OBO                 |
| CALABARZON          | Quezon              | General Nakar         | MBO                         |
| Bicol Region        | Camarines Sur       | Balatan               | MBO                         |
| Bicol Region        | Camarines Sur       | Bula                  | MBO                         |
| Bicol Region        | Camarines Sur       | Caramoan              | Regular branch              |
| Western Visayas     | Antique             | Caluya                | Extension office            |
| Zamboanga Peninsula | Zamboanga del Norte | Siayan                | MBO                         |
| Northern Mindanao   | Misamis Occidental  | Sinacaban             | Extension office            |
| Northern Mindanao   | Misamis Oriental    | Claveria              | MBO                         |
| Caraga              | Agusan del Norte    | Remedios T. Romualdez | Regular OBO                 |
| ARMM                | Maguindanao         | Upi                   | MBO                         |

<sup>6</sup> These municipalities have small population (average is 26,000) although poverty incidence is relatively high (average is 42.5%). In the Philippines, the average population per LGU is around 56,500 (based from 2010 NSO census) while national poverty incidence is 24.9% (based from June 2013 data from NSCB).

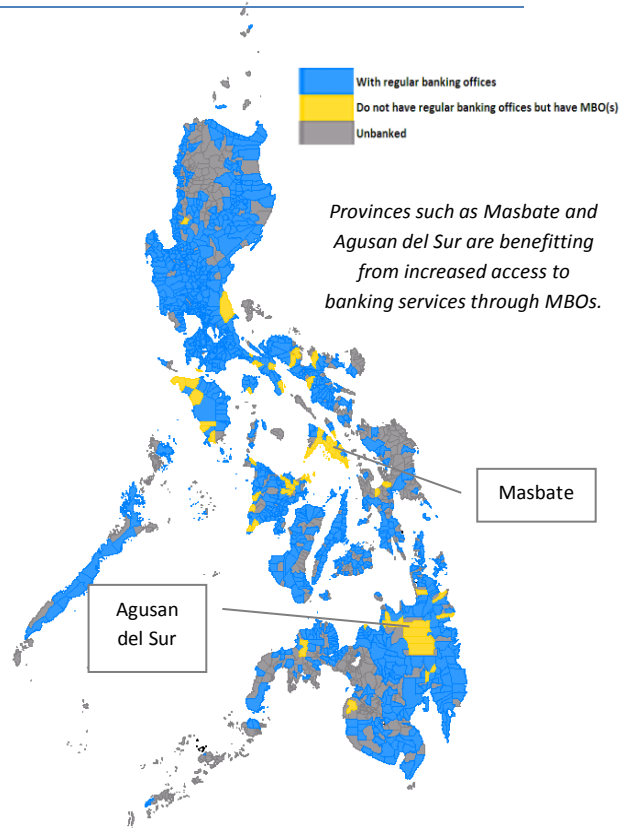
<sup>7</sup> These 15 municipalities that gained banking presence in 2013 have an average population of 33,000 and poverty incidence of 38.8%.



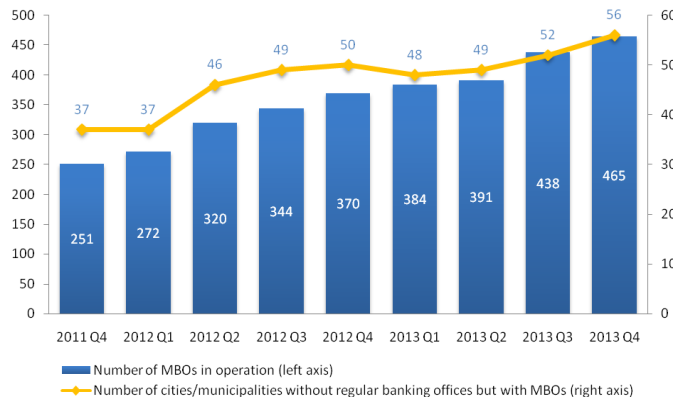


### Expanded Physical Reach of Banks Through Micro-Banking Offices (MBOs)

BSP Circular 694 (dated 14 October 2010) enables banks to establish presence in areas where it may not be immediately economically feasible to set up a full blown bank branch by allowing a simple branch called a **micro-banking office (MBO)**. With MBOs, areas that are unserved or underserved will have access to a wide range of financial services ranging from credit, savings, remittances, foreign exchange, e-money conversion, bills payment and government pay-out benefits.



- MBOs continue to increase in number and outreach. The number of operating MBOs went up by 26% to 465 in 2013 from 370 in 2012. The number of LGUs that do not have a regular bank branch but are being served by MBOs increased to 56 LGUs in 2013 from 50 LGUs in 2012.



- An analysis of LGUs that are served by MBOs alone showed that all of them are classified as municipalities with majority belonging to the lower tier in terms of income. A particular microfinance-oriented bank dominates the rollout of MBOs in the areas that are situated in Luzon and Visayas while rural banks with strong fundamentals are the ones that set up MBOs in the southern region.
- For LGUs that already have regular bank branches but also have MBOs, it was observed that most of them do not have U/KBs and TBs but have at least 2 RBs.

## Other Financial Service Providers (FSPs)

- Aside from banks, the number of other FSPs also increased.

| Financial                    | Financial Service Provider                                     | 2012 <sup>r/</sup> | 2013   | Growth |
|------------------------------|--|--------------------|--------|--------|
| Full Service                 | Banks  | 9,375              | 9,884  | 5%     |
|                              | Credit Cooperatives  | 2,639              | 2,822  | 7%     |
| Savings and Credit           | Non-Stock Savings and Loans Associations (NSSLAs)              | 195                | 198    | 2%     |
|                              | Microfinance NGOs <sup>a</sup>                                 | ---                | 1,812  | ---    |
| Credit and Other Services    | Pawnshops  | 17,335             | 17,652 | 2%     |
|                              | Other Non-Bank Financial Institutions (NBFIs)                  | 137                | 145    | 6%     |
| Payments and Money Transfers | Remittance Agents and Money Changers/ Foreign Exchange Dealers | 9,263              | 10,834 | 17%    |
|                              | E-money Agents <sup>b</sup>                                    | 18,545             | 24,029 | 30%    |
| Transfers                    | Automated Teller Machines (ATMs)                               | 12,224             | 14,528 | 19%    |
| Total                        |  | 69,713             | 81,904 | 17%    |

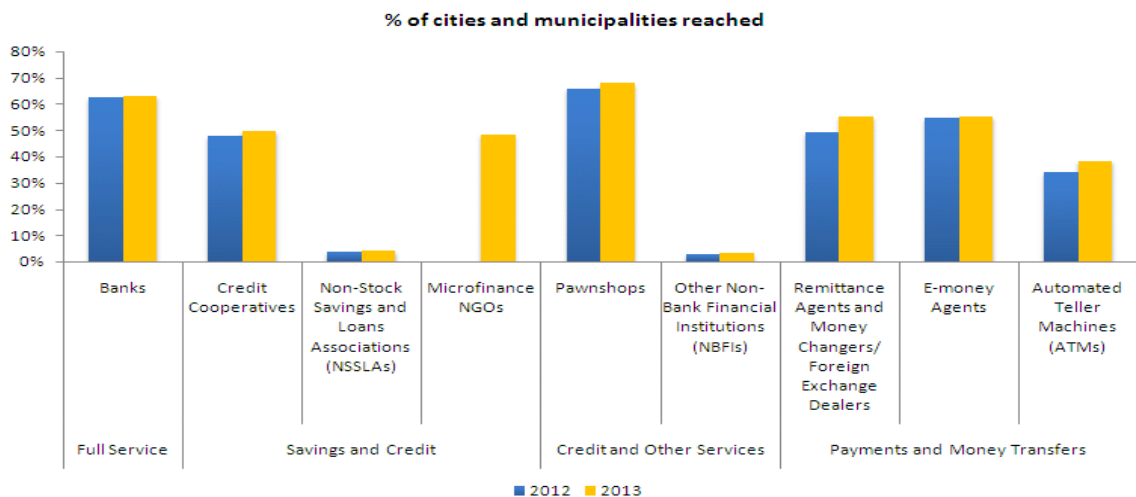
<sup>r/</sup> revised

<sup>a</sup> Based from the data collected from 17 MF NGOs.

<sup>b</sup> This count is the number of registered e-money agents and includes agents that are pawnshops, remittance agents and money changers/ FX dealers.

- The table and graph below illustrate the percentage of cities and municipalities reached by the different access points. It can be seen that these access points have also increased their geographical reach, especially ATMs, remittance agents and money changers/ foreign exchange dealers. Pawnshops have wider municipal reach than banks.

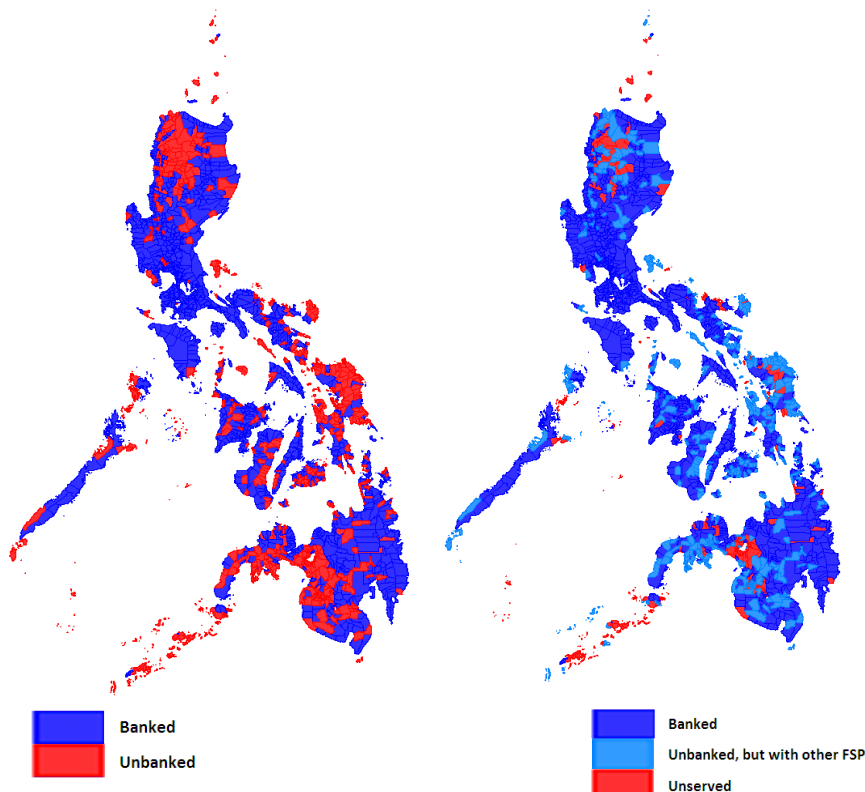
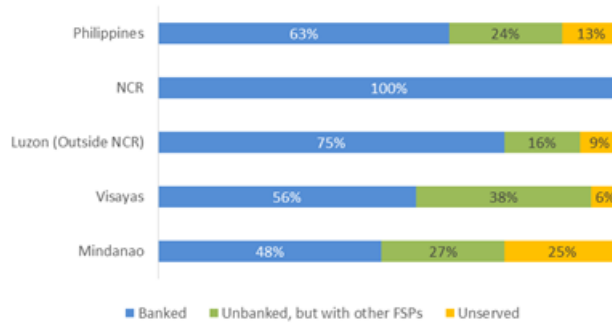
| Financial Service            | Financial Service Provider                        | No. of LGUs reached |      | Growth | % share to total no. of LGUs |       |
|------------------------------|---|---------------------|------|--------|------------------------------|-------|
|                              |   | 2012                | 2013 |        | 2012                         | 2013  |
| Full Service                 | Banks   | 1,023               | 1030 | 1%     | 62.6%                        | 63.0% |
|                              | Credit Cooperatives                               | 785                 | 814  | 4%     | 48.0%                        | 49.8% |
| Savings and Credit           | Non-Stock Savings and Loans Associations (NSSLAs) | 63                  | 66   | 5%     | 3.9%                         | 4.0%  |
|                              | Microfinance NGOs                                 | ---                 | 790  | ---    | ---                          | 48.3% |
| Credit and Other Services    | Pawnshops   | 1,079               | 1109 | 3%     | 66.0%                        | 67.9% |
|                              | Other Non-Bank Financial Institutions (NBFIs)     | 51                  | 53   | 4%     | 3.1%                         | 3.2%  |
| Payments and Money Transfers | Remittance Agents and Money Changers/ FX Dealers  | 804                 | 903  | 12%    | 49.2%                        | 55.3% |
|                              | E-money Agents                                    | 900                 | 903  | 0%     | 55.1%                        | 55.3% |
|                              | Automated Teller Machines (ATMs)                  | 557                 | 627  | 13%    | 34.1%                        | 38.4% |



- Other FSPs present a significant opportunity for financial inclusion. Because of their presence in areas that are not served by banks, there will be a significant reduction in the percentage of unserved LGUs. Out of the 604 unbanked LGUs, 398 LGUs have access to other FSPs. This indicates that only 206 LGUs (equivalent to 13% of 1,634 LGUs) are left unserved. Around 4% of the total Philippine population lives in these unserved LGUs.

|   | 2012                                |            | 2013                                |            |
|---|-------------------------------------|------------|-------------------------------------|------------|
|   | Number of cities and municipalities | % to Total | Number of cities and municipalities | % to Total |
| 1. With banking presence                                  | 1,023                               | 62.6%      | 1,030                               | 63.0%      |
| 2. Without banking presence                               | 611                                 | 37.4%      | 604                                 | 37.0%      |
| 2.1 Without banking presence but with other access points | 394                                 | 24.1%      | 398                                 | 24.4%      |
| 2.2 Without any access point                              | 217                                 | 13.3%      | 206                                 | 12.6%      |
| *With at least one access point (1 + 2.1)                 | 1,417                               | 86.7%      | 1,428                               | 87.4%      |

Percentage of cities and municipalities with financial access



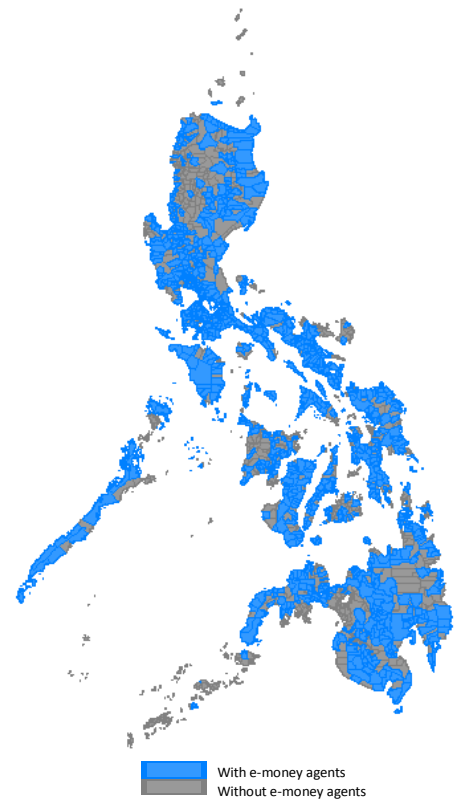


### Extended Virtual Reach of Financial Services Through E-Money and Mobile Banking

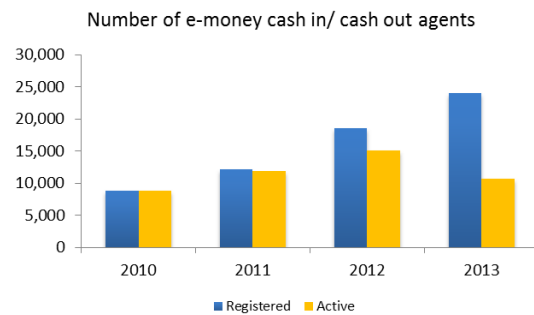
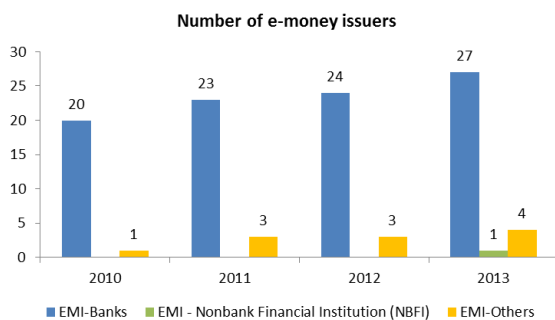
Technological innovation can provide new ways in which financial services can be delivered. One such innovation is e-money.

E-money provides exciting opportunities for financial institutions to expand the reach of their services. While many Filipinos do not have a deposit account, mobile phone penetration is high with around 49 million unique subscribers and 109 million SIM cards\*. Thus, e-money and mobile banking offer the potential of increasing access to finance especially to those who are living in remote and hard to reach areas where distance to banks and other access points appear as an immediate challenge.

\*GSMA *The Mobile Economy, Asia Pacific report*



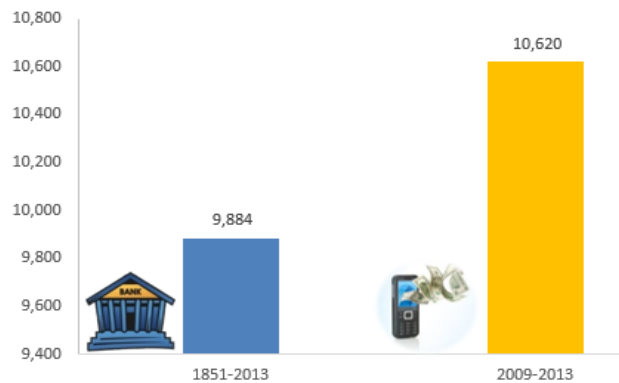
- The number of e-money issuers (EMIs) continues to increase. In 2010 (one year after the issuance of BSP Circular 649 in 2009), there were 21 registered EMIs. Three years after, the number of EMIs increased by 52% to 32 EMIs in 2013. This count includes 27 banks, 1 NBFI and 4 others.



- The number of active e-money agents grew by 20% to 10,620 agents in 2013 from 8,819 in 2010. Around 965 LGUs have at least one e-money cash-in and cash-out point. Of the 604 unbanked LGUs, 220 LGUs (36%) have access to e-money agents. The provinces of Leyte, Northern Samar and Eastern Samar have the most number of unbanked LGUs with access to e-money agents.

The network of e-money cash-in/cash-out points can considerably add to the ecosystem of financial service access points that will enable people to make financial transactions. This is significant for two reasons:

1. It took more than 160 years<sup>8</sup> before the number of banks reached 9,884 yet it only took 4 years before the number of e-money agents reached 10,620. This suggests that e-money agents grow 44 times faster than banking offices.



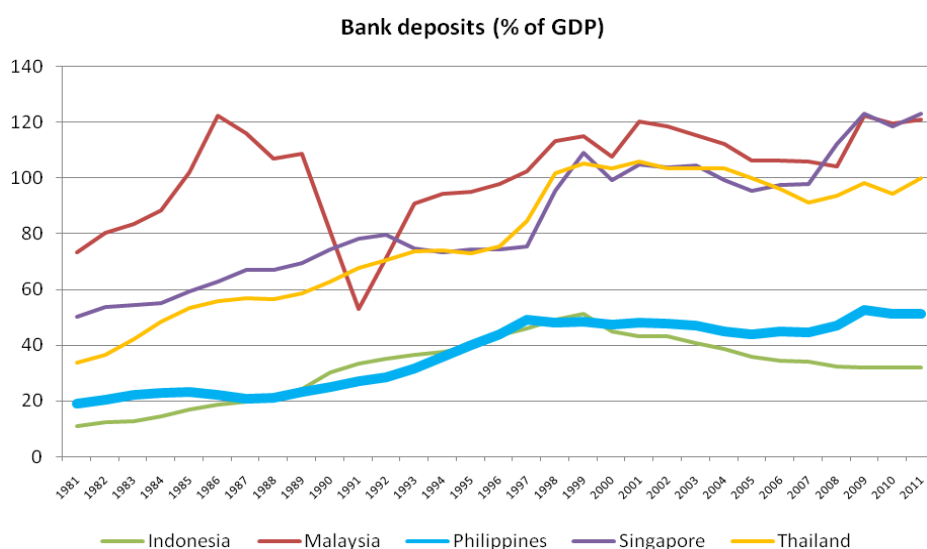
2. Users of payments and remittance services can eventually become bank clients. This is because doing payments and money transfers is considered an important first step to access other financial products such as savings, credit and insurance.

<sup>8</sup> Banking in the Philippines started in 1851 with the opening of Banco Español Filipino de Isabel II (Spanish-Filipino Bank of Isabel II), which is now Bank of the Philippine Islands.

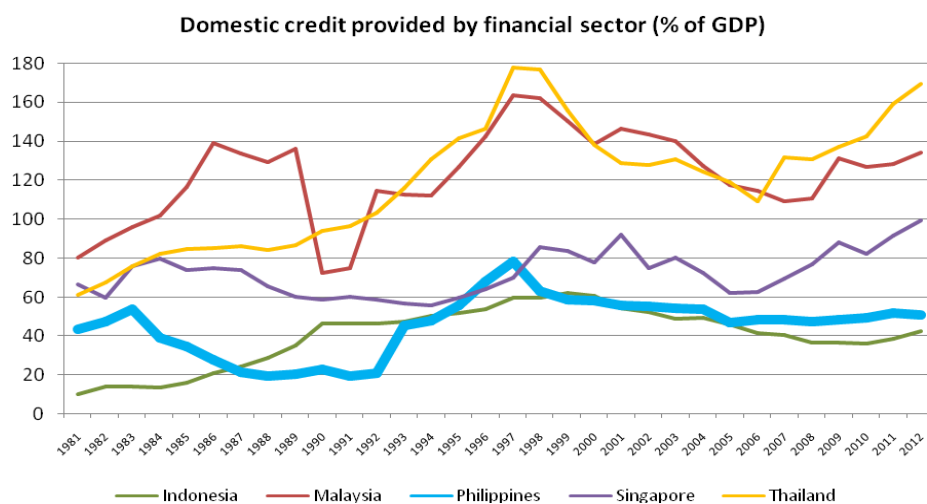
# USAGE

## Financial depth

- In the Philippines, the ratio of bank deposits to the Gross Domestic Product (GDP) stood at 51.3% in 2011, a figure which is comparable with that of Indonesia but lags behind Malaysia, Singapore and Thailand.
- Domestic credit provided by the financial sector was 50.9% of the country’s GDP in 2012. This is slightly better than Indonesia but still lower than Malaysia, Thailand and Singapore.



Source: Data Market (citing: World Bank, International Financial Statistics, International Monetary Fund)



Source: World Bank

## Deposits

### Number of deposit accounts in banks

- Unlike in 2012 where the total number of deposit accounts decreased at the national level and in some regions, in 2013, the number of deposit accounts increased both at the national and regional level.
- The total number of deposit accounts increased by 9% to 45.4 million accounts in 2013 from 41.8 million in 2012. While deposit accounts remain heavily concentrated in NCR followed by CALABARZON, it is interesting to note that there are high growth rates in regions such as MIMAROPA and Bicol Region. This can be associated with the increase in the number of banks and ATMs in these regions as noted in the discussion on Access.

| Region |                     | Number of deposit accounts<br>(in millions) |       |        | % Share to Total |       |
|--------|---------------------|---|-------|--------|------------------|-------|
|        |                     | 2012  | 2013  | Growth | 2012             | 2013  |
|        | NCR                 | 18.03                                       | 19.41 | 8%     | 43.2%            | 42.8% |
|        | CAR                 | 0.70  | 0.75  | 7%     | 1.7%             | 1.7%  |
| I      | Ilocos Region       | 1.47  | 1.57  | 7%     | 3.5%             | 3.5%  |
| II     | Cagayan Valley      | 0.86  | 0.95  | 9%     | 2.1%             | 2.1%  |
| III    | Central Luzon       | 3.23  | 3.48  | 8%     | 7.7%             | 7.7%  |
| IV-A   | CALABARZON          | 5.41  | 6.04  | 12%    | 13.0%            | 13.3% |
| IV-B   | MIMAROPA            | 0.61  | 0.72  | 17%    | 1.5%             | 1.6%  |
| V      | Bicol Region        | 1.14  | 1.28  | 12%    | 2.7%             | 2.8%  |
| VI     | Western Visayas     | 2.07  | 2.27  | 10%    | 5.0%             | 5.0%  |
| VII    | Central Visayas     | 2.49  | 2.76  | 11%    | 6.0%             | 6.1%  |
| VIII   | Eastern Visayas     | 0.67  | 0.69  | 3%     | 1.6%             | 1.5%  |
| IX     | Zamboanga Peninsula | 0.73  | 0.78  | 7%     | 1.7%             | 1.7%  |
| X      | Northern Mindanao   | 1.21  | 1.26  | 5%     | 2.9%             | 2.8%  |
| XI     | Davao Region        | 1.48  | 1.62  | 10%    | 3.5%             | 3.6%  |
| XII    | SOCCSKSARGEN        | 0.89  | 0.96  | 8%     | 2.1%             | 2.1%  |
| XIII   | Caraga              | 0.68  | 0.70  | 4%     | 1.6%             | 1.5%  |
|        | ARMM                | 0.109                                       | 0.111 | 2%     | 0.3%             | 0.2%  |
| Total  |                     | 41.78                                       | 45.35 | 9%     | 100%             | 100%  |

Source: Philippine Deposit Insurance Corporation (PDIC)

### Amount of deposits in banks

- The total peso value of bank deposits got bigger by 32% to P7.6 trillion in 2013 from P5.7 trillion in 2012. The increase appears to be driven by the growth in NCR, where the total amount of bank deposits grew by 38% to P5.4 trillion in 2013 from P3.9 trillion in 2012. NCR accounted for almost 71% of the total amount of deposits in 2013.

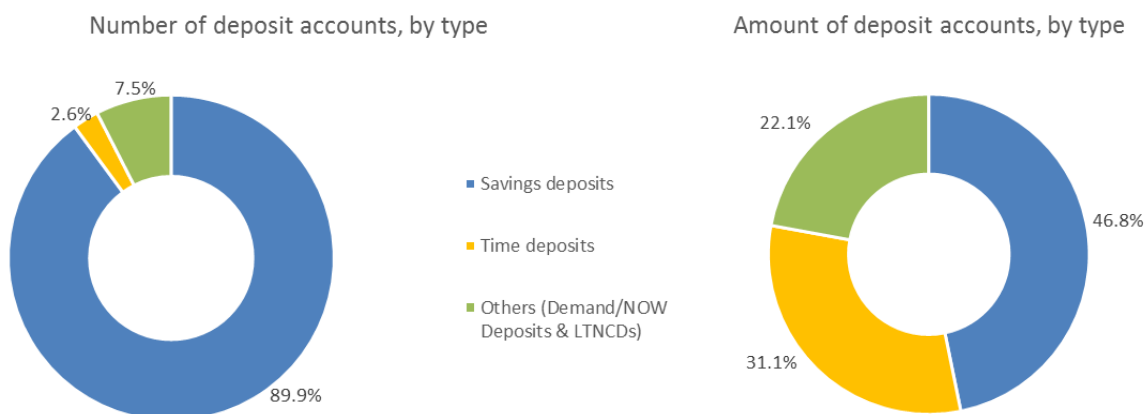
- It can be observed that all the regions in Visayas (Central, Western and Eastern Visayas) are the regions next to NCR in terms of growth in the amount of deposits.

| Region                 | Amount of deposits<br>(in billion pesos) |         |        | % Share to Total |       |
|------------------------|--|---------|--------|------------------|-------|
|                        | 2012                                     | 2013    | Growth | 2012             | 2013  |
| NCR                    | 3,890.9                                  | 5,377.1 | 38%    | 67.7%            | 70.7% |
| CAR                    | 54.9                                     | 64.7    | 18%    | 1.0%             | 0.9%  |
| I Ilocos Region        | 107.4                                    | 121.3   | 13%    | 1.9%             | 1.6%  |
| II Cagayan Valley      | 62.7                                     | 73.3    | 17%    | 1.1%             | 1.0%  |
| III Central Luzon      | 282.2                                    | 337.0   | 19%    | 4.9%             | 4.4%  |
| IV-A CALABARZON        | 396.7                                    | 468.8   | 18%    | 6.9%             | 6.2%  |
| IV-B MIMAROPA          | 31.8                                     | 37.8    | 19%    | 0.6%             | 0.5%  |
| V Bicol Region         | 68.2                                     | 79.1    | 16%    | 1.2%             | 1.0%  |
| VI Western Visayas     | 160.9                                    | 195.7   | 22%    | 2.8%             | 2.6%  |
| VII Central Visayas    | 281.6                                    | 368.5   | 31%    | 4.9%             | 4.8%  |
| VIII Eastern Visayas   | 48.8                                     | 58.8    | 20%    | 0.8%             | 0.8%  |
| IX Zamboanga Peninsula | 52.3                                     | 60.6    | 16%    | 0.9%             | 0.8%  |
| X Northern Mindanao    | 85.8                                     | 99.9    | 16%    | 1.5%             | 1.3%  |
| XI Davao Region        | 116.0                                    | 138.1   | 19%    | 2.0%             | 1.8%  |
| XII SOCCSKSARGEN       | 62.7                                     | 70.6    | 13%    | 1.1%             | 0.9%  |
| XIII Caraga            | 38.0                                     | 42.7    | 12%    | 0.7%             | 0.6%  |
| ARMM                   | 5.5                                      | 6.3     | 15%    | 0.1%             | 0.1%  |
| Philippines            | 5,746.3                                  | 7,600.3 | 32%    | 100%             | 100%  |

Source: PDIC

Composition of deposit accounts in banks

- Almost 90% of the total number of deposit accounts and 47% of the total amount of deposits are savings deposit.





### Size of bank deposits

- In 2013, deposit accounts amounting to P5,000 and below made up 63% of all deposit accounts in banks. The number of these accounts increased by 7% to 28.8 million accounts in 2013 from 26.8 million accounts in 2012. Deposit accounts from P5,000 to P10,000 experienced higher growth rate, which expanded by 13% from 2012 to 2013.
- The number of deposit accounts below P15,000 increased by 8% to 34.1 million in 2013 from 31.6 million in 2012, and these accounts comprised 75% of all deposit accounts in banks. Analysis of individual bank data revealed that growth in deposit amounts below P15,000 was driven by the top universal banks.
- Deposit accounts that are covered by deposit insurance (i.e., below the maximum deposit insurance coverage of P500,000) comprised 97% of the total number of deposit accounts in banks. On the other hand, deposit accounts above P500,000 increased by 21% to 1.5 million accounts in 2013 from 1.2 million accounts in 2012.
- In terms of amount, it can be inferred that the increase in the total peso value of bank deposits can also be attributed to the increase in value of deposit accounts above P500,000. The amount of accounts belonging to this deposit bracket increased by 37% to P6.56 trillion in 2013 from P4.78 trillion in 2012.

| Deposit Size             | Number of deposit accounts<br>(in millions) |      |        | % Share to Total |        |
|--------------------------|---|------|--------|------------------|--------|
|                          | 2012  | 2013 | Growth | 2012             | 2013   |
| P 5,000 and below        | 26.8  | 28.8 | 7%     | 64.1%            | 63.4%  |
| P 5,000.01 - P 10,000    | 3.0   | 3.4  | 13%    | 7.2%             | 7.5%   |
| P 10,000.01 - P 15,000   | 1.8   | 2.0  | 7%     | 4.4%             | 4.4%   |
| P 15,000.01 - P 40,000   | 3.5   | 3.6  | 4%     | 8.4%             | 8.0%   |
| P 40,000.01 - P 100,000  | 2.5   | 2.9  | 18%    | 5.9%             | 6.5%   |
| P 100,000.01 - P 500,000 | 2.9   | 3.1  | 7%     | 7.0%             | 6.9%   |
| Above P 500,000          | 1.2   | 1.5  | 21%    | 3.0%             | 3.3%   |
| Total                    | 41.8  | 45.4 | 9%     | 100.0%           | 100.0% |

Source: PDIC

| Deposit Size             | Amount of deposits<br>(in billion pesos) |         |        | % Share to Total |        |
|--------------------------|--|---------|--------|------------------|--------|
|                          | 2012                                     | 2013    | Growth | 2012             | 2013   |
| P 5,000 and below        | 19.3                                     | 21.0    | 9%     | 0.3%             | 0.3%   |
| P 5,000.01 - P 10,000    | 21.0                                     | 22.9    | 9%     | 0.4%             | 0.3%   |
| P 10,000.01 - P 15,000   | 21.9                                     | 23.4    | 7%     | 0.4%             | 0.3%   |
| P 15,000.01 - P 40,000   | 89.6                                     | 87.7    | -2%    | 1.6%             | 1.2%   |
| P 40,000.01 - P 100,000  | 156.9                                    | 178.0   | 13%    | 2.7%             | 2.3%   |
| P 100,000.01 - P 500,000 | 662.6                                    | 702.9   | 6%     | 11.5%            | 9.2%   |
| Above P 500,000          | 4,775.0                                  | 6,564.4 | 37%    | 83.1%            | 86.4%  |
| Total                    | 5,746.4                                  | 7,600.3 | 32%    | 100.0%           | 100.0% |

Source: PDIC



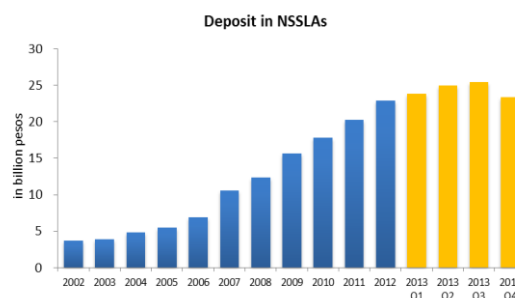
### What are micro-deposits?

In 2010, the BSP issued Circular 694 which expanded microfinance products to include micro-deposits (also known as microfinance savings deposits). Micro-deposits are savings accounts that cater to the needs of the basic sectors and low income individuals. These savings accounts remove the usual barriers faced in opening a bank account such as high maintaining balance and dormancy charges.

In 2013, the BSP issued Circular 796 which amends the general features of micro-deposits by increasing the average daily balance (ADB) from P15,000 to P 40,000. This responsive measure enhances the features of micro-deposits to further encourage the microfinance clients to build up their savings.

### Deposits in non-banks

- Deposits in non-bank financial institutions authorized to have deposit-taking activities (i.e., Non-Stock Savings and Loans Associations or NSSLAs) increased by 2% to P 23.3 billion in 2013 from P 22.9 billion in 2012. In terms of composition, 67% of deposits in NSSLAs are savings deposits while the remaining 33% are time deposits.



### Credit

#### Amount of loans in banks<sup>9</sup>

- The total amount of bank loans increased by 17% to P4.25 trillion in 2013 from P3.62 trillion in 2012. Compared to the regional distribution of bank deposits, the distribution of banking system loans is more heavily skewed to NCR. In 2013, NCR accounted for 85% of the total amount of loans outstanding in the banking sector.
- The good news is that loan growth has been remarkable in regions outside NCR. Highest loan growth was observed in Central Visayas at 55%.<sup>10</sup> Surprisingly, ARMM is

<sup>9</sup> Exclusive of interbank loans and RRP with BSP and other banks. Existing data on the amount of loans include all loans granted by banks, except to the BSP and other banks and NBFIs with quasi-banking authority.

<sup>10</sup> The Province of Cebu accounted for 91% of the total amount of loans outstanding in Central Visayas. The loan portfolio of U/KBs in Cebu expanded by 71% from 2012 to 2013. Loan growth was highest in Cebu City, Mandaue City and Talisay City. This may be reflective of the good investment climate and business environment in the province.

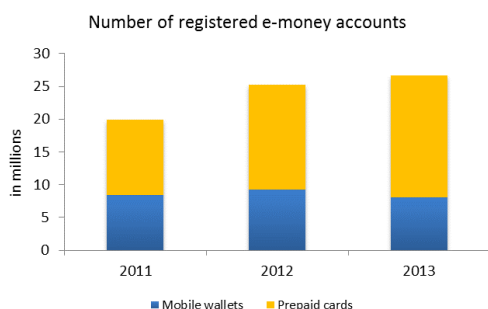
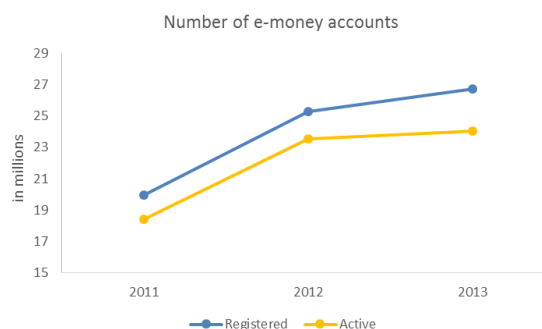
included in the top 3 regions with high growth in loans together with Central Visayas and Western Visayas.

| Region               | Amount of loans<br>(in billion pesos) |         |        | % share to total |       |
|----------------------|---------------------------------------|---------|--------|------------------|-------|
|                      | 2012 <sup>r/</sup>                    | 2013    | Growth | 2012             | 2013  |
| NCR                  | 3,112.9                               | 3,629.6 | 17%    | 86%              | 85%   |
| CAR                  | 9.4                                   | 10.8    | 14%    | 0.3%             | 0.3%  |
| I Ilocos Region      | 23.2                                  | 26.8    | 15%    | 1%               | 1%    |
| II Cagayan Valley    | 22.3                                  | 24.4    | 9%     | 1%               | 1%    |
| III Central Luzon    | 81.9                                  | 90.7    | 11%    | 2%               | 2%    |
| IV-A CALABARZON      | 83.9                                  | 93.2    | 11%    | 2%               | 2%    |
| IV-B MIMAROPA        | 10.3                                  | 11.6    | 13%    | 0.3%             | 0.3%  |
| V Bicol Region       | 22.2                                  | 25.7    | 16%    | 1%               | 1%    |
| VI Western Visayas   | 41.4                                  | 54.1    | 31%    | 1%               | 1%    |
| VII Central Visayas  | 86.0                                  | 133.0   | 55%    | 2%               | 3%    |
| VIII Eastern Visayas | 13.5                                  | 15.7    | 17%    | 0.4%             | 0.4%  |
| IX Zamboanga         | 14.7                                  | 17.3    | 17%    | 0.4%             | 0.4%  |
| X Northern Mindanao  | 27.1                                  | 31.6    | 17%    | 1%               | 1%    |
| XI Davao Region      | 39.4                                  | 47.5    | 21%    | 1%               | 1%    |
| XII SOCCSKSARGEN     | 22.2                                  | 24.9    | 12%    | 1%               | 1%    |
| XIII Caraga          | 10.3                                  | 11.2    | 9%     | 0.3%             | 0.3%  |
| ARMM                 | 0.9                                   | 1.3     | 38%    | 0.03%            | 0.03% |
| Philippines          | 3,621.8                               | 4,249.3 | 17%    | 100%             | 100%  |

<sup>r/</sup>revised

### E-Money

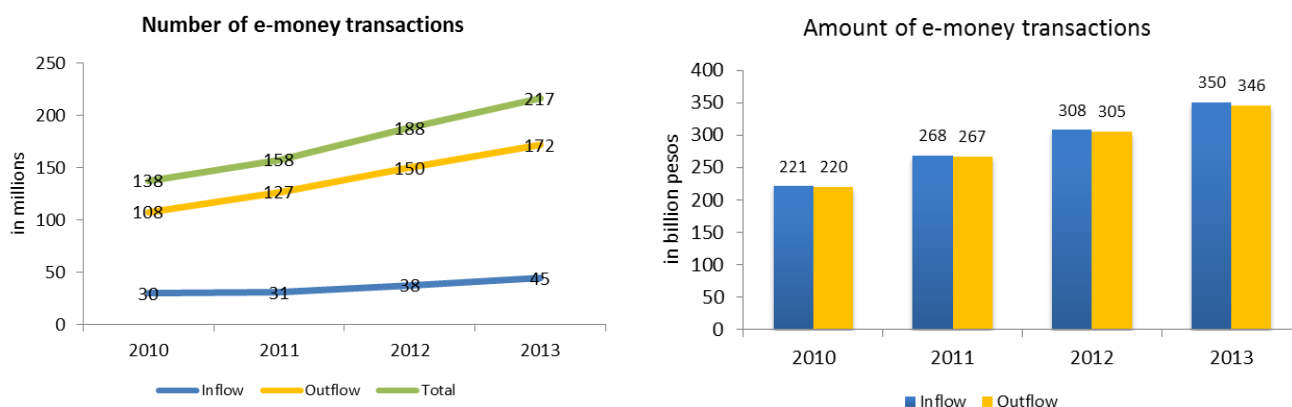
- Data in the past years show an upward trend in e-money usage as the number of e-money accounts and transactions continues to increase.
- In 2013, there were 26.7 million registered e-money accounts composed of 8 million mobile wallets and 18.7 million cash cards. This count is higher by 34% to 19.9 million e-money accounts recorded in 2011. Around 90% (24 million) of registered e-money accounts in 2013 were considered active<sup>11</sup>.



- While the number of mobile wallets slightly decreased by 5% to 8 million wallets in 2013 from 8.46 million wallets in 2011, the decline was offset by an increase in the number of prepaid cards that are linked to e-money accounts. The number of cash cards soared by 63% to 18.7 million cards in 2013 from 11.5 million cards in 2011.

<sup>11</sup> GCash defines active accounts as those having at least one transaction per month. Smart Money, on the other hand, considers a wallet as active if it has usage in the last six months.

- The number of e-money transactions has also considerably grown. From 138 million transactions in 2010, the number of transactions that passed through e-money jumped by 57% to 217 million transactions in 2013. In terms of amount, the total value<sup>12</sup> of e-money transactions rose by 58% to P348 billion in 2013 from P220.5 billion in 2010.



### Wider Range of Products through Microfinance

Since 2000, the BSP has been proactive in the development of microfinance in the banking sector. The BSP experience in microfinance proved that low income segments can be effectively served by the formal financial system given appropriately designed and affordably priced products and services. At present, there is a wide range of products such as microfinance loans, micro-agricultural loans, microfinance housing loans, micro-deposits and microinsurance that are available to a previously unbanked market.

- In 2013, there were 182 banks with microfinance operations<sup>13</sup> serving 1.05 million borrowers with loans outstanding amounting to P8.7 billion. Compared with 2012, the number of microfinance banks and clients slightly decreased in 2013. Despite this, the microfinance loan portfolio managed to expand by 3%.







|  | 2012      | 2013      |
|--|-----------|-----------|
| Number of banks with microfinance operations                 | 187       | 182       |
| Number of microfinance borrowers                             | 1,137,813 | 1,049,988 |
| Amount of the microfinance loan portfolio (in billion pesos) | 8.4       | 8.7       |

<sup>12</sup> Average of P350 billion e-money inflows and P346 billion outflows.

<sup>13</sup> Comprised of 137 rural banks, 18 cooperative banks, 25 thrift banks, 1 commercial bank and 1 universal bank.

*Microfinance loan products*

- The number of banks offering microfinance loans to microenterprises decreased to 168 banks in 2013 from 171 banks in 2012, although the amount of microenterprise loans still expanded by 7% to P7.4 billion in 2013 from P6.9 billion in 2012.
- The other types of microfinance loan products such as microfinance plus and housing microfinance loans also experienced growth in 2013. Housing microfinance loans increased by 9% to P263 million in 2013 from P242 million in 2012. Microfinance Plus loans, which are loans amounting to P150,001 – P300,000 specifically designed for growing microenterprises, climbed by 34% to P111 million in 2013 from P83 million in 2012.

| Microfinance Product  |                              | 2012   | 2013  |
|---|------------------------------|--|---|
|    | Microenterprise Loans        | 171 banks<br>P6.9 billion                          | 168 banks<br>P7.4 billion                           |
|  | Microfinance Plus            | 17 banks<br>P83 million                            | 19 Banks<br>P111 million                            |
|  | Micro-Agri Loans             | 39 banks<br>P496 million                           | 33 Banks<br>P295 million                            |
|  | Housing Microfinance Loans   | 18 banks<br>P242 million                           | 16 Banks<br>P263 million                            |
|  | Micro-deposit Accounts       | 58 banks<br>1.1 million accounts<br>P2.3 billion   | 69 Banks<br>1.5 million accounts<br>P2.96 billion   |
|  | Microinsurance <sup>14</sup> | 37 banks<br>12.9 million individuals with coverage | 40 banks<br>19.95 million individuals with coverage |

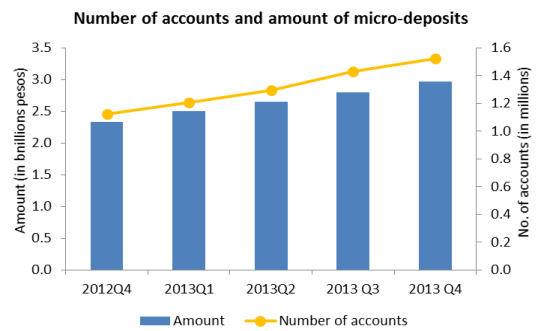
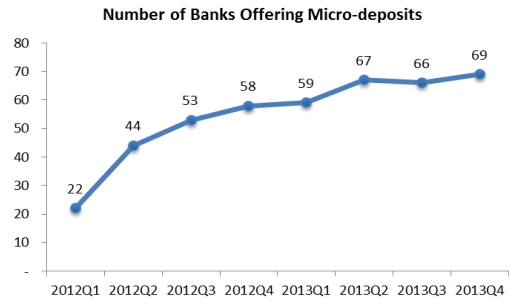
- While there have been increases in product offering, the BSP looks forward to see a growing trend in the number of banks offering these different microfinance loan products. It was observed that majority of banks with exposures to Microfinance Plus are rural banks that have relatively longer years of track record in microfinance

<sup>14</sup> The data on the number of Filipinos who are covered by microinsurance were sourced from the Insurance Commission (IC). The reported number of Filipinos with microinsurance coverage are not solely due to banks offering microinsurance services, as there are other companies that are selling microinsurance products.

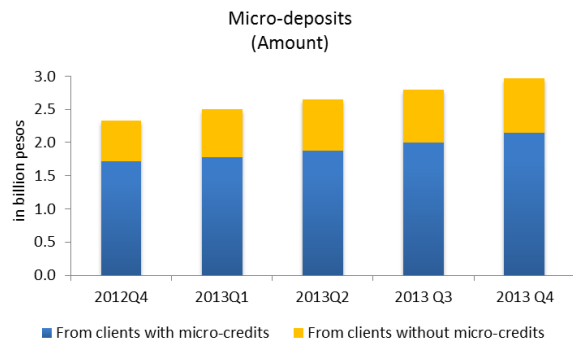
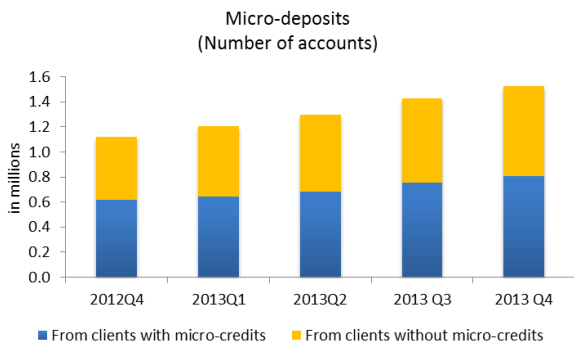
(they have been in existence for an average of 32 years). On the other hand, bulk of the housing microfinance loans are coming from a large microfinance-oriented rural bank.

*Micro-deposits*

- An increasing number of banks are offering micro-deposit accounts. The count of banks with micro-deposits increased by 19% to 69 banks in 2013 from 58 banks in 2012.
- The growing number of banks that are offering micro-deposits resulted to a noticeable growth in the volume and value of micro-deposit accounts. The total amount of micro-deposit accounts went up by 27% to P2.96 billion in 2013 from P2.33 billion in 2012. In terms of volume, the total number of micro-deposit accounts surged by 36% to 1.5 million accounts in 2013 from 1.1 million accounts in 2012.

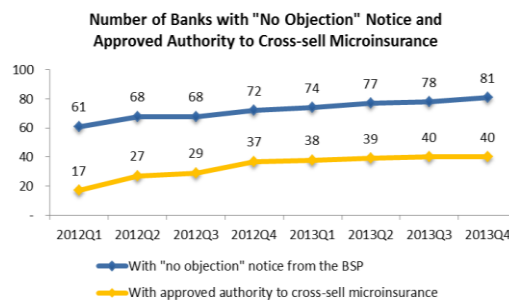


- Micro-deposits do not come only from microfinance clients with outstanding loans. It is interesting to note that micro-deposits from clients without microcredits comprised 47% of the total number of micro-deposit accounts and 27% of the total peso value of micro-deposits. The positive trend in the number and amount of micro-deposit accounts suggests increasing acceptance of the low income market for a deposit product that removes the usual barriers faced in opening a bank account such as high maintaining balance and dormancy charges.



*Microinsurance*

- In 2013, there were 81 banks with no objection notice from the BSP to offer microinsurance while 40 banks had already obtained authority to market, sale and service microinsurance products.<sup>15</sup>



- Data from the Rural Bankers Association of the Philippines (RBAP) showed that the total number of insured clients by rural banks with microinsurance rose by 153% to 1.4 million in 2013 from around 543,500 in 2012.<sup>16</sup>
- According to the Insurance Commission (IC), microinsurance coverage among Filipinos rose to 19.95 million (20.4% of the population) in 2013 from 3.1 million (3.4% of the population) in 2008. This makes the Philippines one of the top microinsurance market in Asia. The strong support by the insurance providers and warm reception by policyholders were cited as significant factors contributing to the phenomenal growth of microinsurance in the country.

<sup>15</sup> Banks wanting to become insurance agents need to obtain a “no objection notice” from the BSP and approved authority to cross-sell microinsurance from the IC.

<sup>16</sup> Based from the data submitted by 4 commercial insurance companies and 2 Mutual Benefit Associations (MBA) that have existing partnership with rural banks.

## FINANCIAL INCLUSION INDICATORS

Measures of financial inclusion can be further enhanced by factoring in other important variables such as size of the population and percentage share of habitable land area. In the maiden report on the state of financial inclusion, it was stated that some regions are not as underserved as they appear to be if we consider the population count and size of inhabitable land in the region. The use of demographic and geographic factors therefore allows us to assess if the level of financial access and usage in a particular location is just proportionate to the size of its adult population<sup>17</sup> and habitable land area.

### Access Indicators

#### National and regional distribution

- On the average, there are 6 banking offices per city/ municipality. NCR is an extreme outlier; with just 17 local government units (LGUs), it had 3,141 banking offices in 2013 which inflated its bank density ratio to almost 185 banking offices per LGU. ARMM, on the other hand, is at the other extreme end with its bank density still far away from having at least 1 banking office per LGU.

| Region                 | 2012   | 2013   | Growth |
|------------------------|--------|--------|--------|
| NCR                    | 176.06 | 184.76 | 5%     |
| CAR                    | 1.92   | 1.95   | 1%     |
| I Ilocos Region        | 3.30   | 3.49   | 6%     |
| II Cagayan Valley      | 3.08   | 3.33   | 8%     |
| III Central Luzon      | 7.50   | 7.68   | 2%     |
| IV-A CALABARZON        | 9.90   | 10.63  | 7%     |
| IV-B MIMAROPA          | 2.82   | 3.01   | 7%     |
| V Bicol Region         | 2.76   | 3.10   | 12%    |
| VI Western Visayas     | 4.08   | 4.30   | 5%     |
| VII Central Visayas    | 4.75   | 4.95   | 4%     |
| VIII Eastern Visayas   | 1.22   | 1.28   | 5%     |
| IX Zamboanga Peninsula | 2.64   | 2.76   | 5%     |
| X Northern Mindanao    | 3.53   | 3.73   | 6%     |
| XI Davao Region        | 7.24   | 7.92   | 9%     |
| XII SOCCSKSARGEN       | 3.90   | 3.94   | 1%     |
| XIII Caraga            | 2.75   | 2.84   | 3%     |
| ARMM                   | 0.17   | 0.18   | 5%     |
| Philippines            | 5.74   | 6.05   | 5%     |

Legend: ■ Top 3 ■ Bottom 3

- Demographic indicators such as the number of banking offices and ATMs per 10,000 adults reflect the average number of people served by each physical outlet and therefore higher values imply fewer clients per banking office or ATM, or in other words easier access. In the Philippines, there is 1 bank and 2 ATMs for every 10,000 adults. As expected, financial access is much better in NCR with 4 banks and 7 ATMs per 10,000 adults. As can be seen in the regional breakdown in the next page, the high growth rates of demographic indicators in areas outside NCR such as Bicol Region, Cagayan Valley and Caraga are worth mentioning.
- Indicators describing the extent of geographical penetration of banks and ATMs can also be used to measure financial access. Larger numbers of banking offices and ATMs per square kilometers reflect smaller distance to the nearest physical outlet and thus easier geographic access. At the national level, there are roughly 70 banks

<sup>17</sup> Consistent with international definition, adult population in this report refers to individuals aged 15 years old and above.



and 102 ATMs per 1,000 square kilometers. NCR and ARMM are again extreme outliers.

Number of banks per 10,000 adults

| Region                 | 2012 | 2013 | Growth |
|------------------------|------|------|--------|
| NCR                    | 3.57 | 3.68 | 3%     |
| CAR                    | 1.26 | 1.25 | -1%    |
| I Ilocos Region        | 1.14 | 1.18 | 3%     |
| II Cagayan Valley      | 1.20 | 1.27 | 6%     |
| III Central Luzon      | 1.33 | 1.33 | 0%     |
| IV-A CALABARZON        | 1.63 | 1.70 | 4%     |
| IV-B MIMAROPA          | 1.06 | 1.10 | 4%     |
| V Bicol Region         | 0.81 | 0.89 | 9%     |
| VI Western Visayas     | 1.03 | 1.06 | 3%     |
| VII Central Visayas    | 1.26 | 1.29 | 2%     |
| VIII Eastern Visayas   | 0.58 | 0.59 | 3%     |
| IX Zamboanga Peninsula | 0.86 | 0.88 | 3%     |
| X Northern Mindanao    | 1.08 | 1.11 | 3%     |
| XI Davao Region        | 1.13 | 1.21 | 7%     |
| XII SOCCSKSARGEN       | 0.71 | 0.70 | -1%    |
| XIII Caraga            | 1.16 | 1.16 | 1%     |
| ARMM                   | 0.09 | 0.09 | 3%     |
| Philippines            | 1.42 | 1.47 | 3%     |

Number of ATMs per 10,000 adults

| Region                 | 2012 | 2013 | Growth |
|------------------------|------|------|--------|
| NCR                    | 6.34 | 7.24 | 14%    |
| CAR                    | 1.38 | 1.56 | 14%    |
| I Ilocos Region        | 0.99 | 1.18 | 20%    |
| II Cagayan Valley      | 0.69 | 0.88 | 28%    |
| III Central Luzon      | 1.45 | 1.66 | 14%    |
| IV-A CALABARZON        | 2.03 | 2.38 | 17%    |
| IV-B MIMAROPA          | 0.72 | 0.88 | 23%    |
| V Bicol Region         | 0.67 | 0.81 | 20%    |
| VI Western Visayas     | 0.98 | 1.16 | 18%    |
| VII Central Visayas    | 1.86 | 2.17 | 17%    |
| VIII Eastern Visayas   | 0.60 | 0.72 | 19%    |
| IX Zamboanga Peninsula | 0.79 | 0.93 | 17%    |
| X Northern Mindanao    | 1.08 | 1.29 | 20%    |
| XI Davao Region        | 1.52 | 1.85 | 21%    |
| XII SOCCSKSARGEN       | 0.94 | 1.10 | 17%    |
| XIII Caraga            | 0.66 | 0.93 | 40%    |
| ARMM                   | 0.11 | 0.12 | 9%     |
| Philippines            | 1.86 | 2.16 | 16%    |

Legend: ■ Top 3 ■ Bottom 3

Number of banks per 1,000 sq. km

| Region                 | 2012     | 2013     | Growth |
|------------------------|----------|----------|--------|
| NCR                    | 6,205.42 | 6,512.27 | 5%     |
| CAR                    | 41.66    | 42.22    | 1%     |
| I Ilocos Region        | 50.93    | 53.77    | 6%     |
| II Cagayan Valley      | 29.40    | 31.87    | 8%     |
| III Central Luzon      | 80.94    | 82.85    | 2%     |
| IV-A CALABARZON        | 133.66   | 143.45   | 7%     |
| IV-B MIMAROPA          | 20.63    | 22.03    | 7%     |
| V Bicol Region         | 25.78    | 28.89    | 12%    |
| VI Western Visayas     | 38.29    | 40.34    | 5%     |
| VII Central Visayas    | 65.03    | 67.73    | 4%     |
| VIII Eastern Visayas   | 16.98    | 17.85    | 5%     |
| IX Zamboanga Peninsula | 24.92    | 26.10    | 5%     |
| X Northern Mindanao    | 49.76    | 52.64    | 6%     |
| XI Davao Region        | 32.88    | 35.93    | 9%     |
| XII SOCCSKSARGEN       | 35.66    | 36.03    | 1%     |
| XIII Caraga            | 36.89    | 37.99    | 3%     |
| ARMM                   | 3.68     | 3.87     | 5%     |
| Philippines            | 65.99    | 69.57    | 5%     |

Number of ATMs per 1,000 sq. km

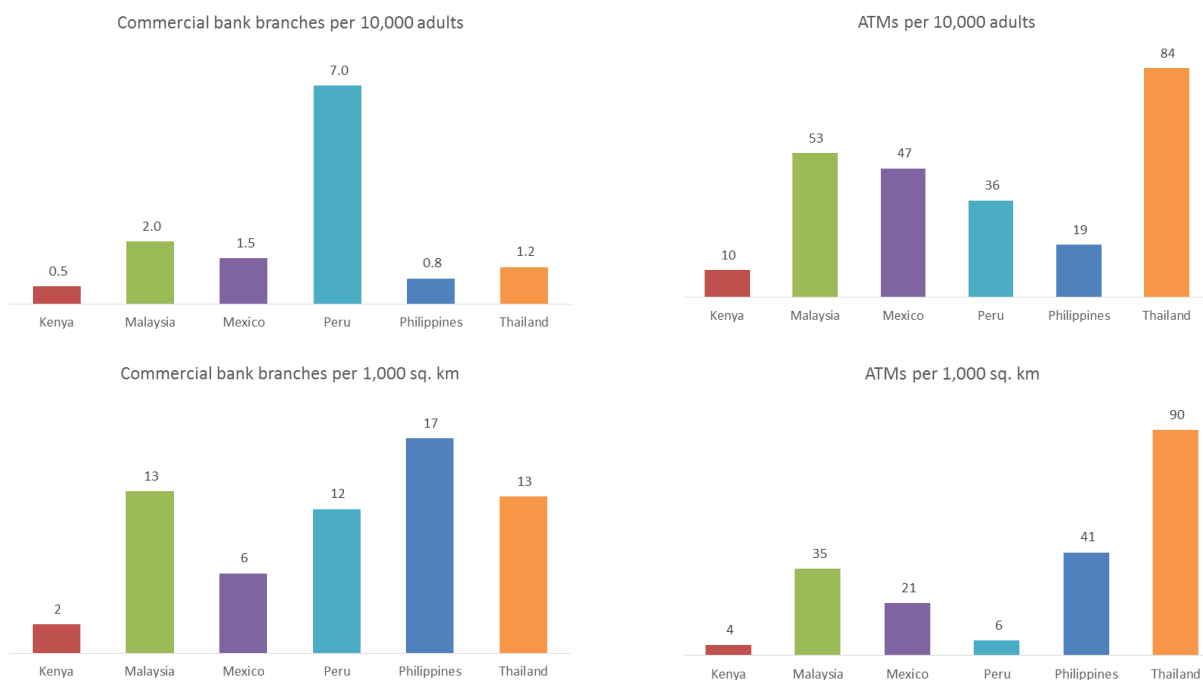
| Region                 | 2012      | 2013      | Growth |
|------------------------|-----------|-----------|--------|
| NCR                    | 11,038.31 | 12,821.36 | 16%    |
| CAR                    | 45.60     | 52.92     | 16%    |
| I Ilocos Region        | 43.90     | 53.64     | 22%    |
| II Cagayan Valley      | 16.96     | 22.10     | 30%    |
| III Central Luzon      | 88.49     | 103.76    | 17%    |
| IV-A CALABARZON        | 166.17    | 200.30    | 21%    |
| IV-B MIMAROPA          | 14.02     | 17.63     | 26%    |
| V Bicol Region         | 21.36     | 26.19     | 23%    |
| VI Western Visayas     | 36.53     | 43.79     | 20%    |
| VII Central Visayas    | 95.52     | 114.50    | 20%    |
| VIII Eastern Visayas   | 17.66     | 21.56     | 22%    |
| IX Zamboanga Peninsula | 23.08     | 27.54     | 19%    |
| X Northern Mindanao    | 49.61     | 60.68     | 22%    |
| XI Davao Region        | 44.45     | 55.01     | 24%    |
| XII SOCCSKSARGEN       | 47.36     | 56.69     | 20%    |
| XIII Caraga            | 21.10     | 30.28     | 43%    |
| ARMM                   | 4.61      | 5.16      | 12%    |
| Philippines            | 86.04     | 102.26    | 19%    |

- It can be observed that Eastern Visayas and ARMM consistently belong to the bottom group in all the financial access indicators. If reach of the financial infrastructure is to be intensified, these two regions deserve priority attention.<sup>18</sup>

<sup>18</sup> The challenge is on how to attract the establishment of access points given the current business environment and investment climate in these regions. For instance, there are peace and security concerns in ARMM, Eastern Visayas is prone to typhoons and both regions have high poverty levels.

*Cross country comparison*<sup>19</sup>

- Compared with countries identified as appropriate peers for benchmarking financial inclusion levels in the Philippines, the number of commercial bank branches and ATMs per 10,000 adults is lower than most of the countries in the peer group. Interestingly, Philippines has the most number of commercial bank branches per 1,000 sq. km and next to Thailand in terms of number of ATMs per 1,000 sq. km.<sup>20</sup>

**Usage Indicator**

- In 2013, there were 6,738 deposit accounts per 10,000 adults.<sup>21</sup> As expected, NCR is again an outlier with around 22,700 deposit accounts per 10,000 adults. This suggests that an adult in NCR owns 2 deposit accounts, on the average. The rest of the regions are yet to reach the 1:1 ratio of adults to deposit accounts.
- The highest growth rate in this deposit indicator was observed in MIMAROPA (14% year-on-year growth) followed by Bicol Region (10% Y-o-Y growth). On the other hand, modest growth was observed in Eastern Visayas with 0.3% Y-o-Y growth and ARMM with 0.1% Y-o-Y growth.

<sup>19</sup> Due to lack of readily available cross-country data as of 2013, data were sourced from the International Monetary Fund (IMF) Financial Access Survey (FAS) as of 2012. It should be noted that IMF FAS indicators consider only commercial bank branches and not all banking offices.

<sup>20</sup> It should be noted though that the indicators for the Philippines are being pulled up by Metro Manila.

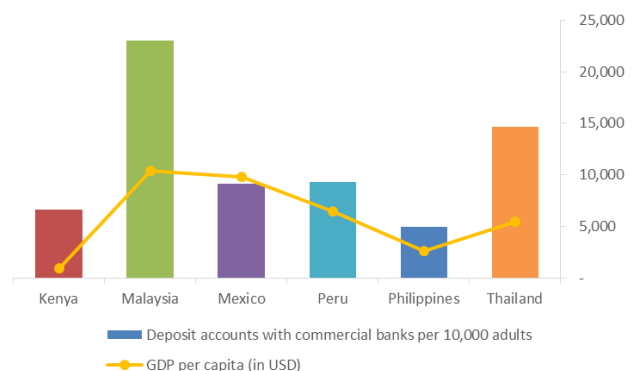
<sup>21</sup> As stated in the previous status reports, this indicator is an imperfect one because there are individuals with more than one deposit account and there are deposits corresponding to non-individuals.

| Region      |                     | 2012   | 2013   | Growth |
|-------------|---------------------|--------|--------|--------|
|             | NCR                 | 21,491 | 22,716 | 6%     |
|             | CAR                 | 5,969  | 6,263  | 5%     |
| I           | Ilocos Region       | 4,060  | 4,267  | 5%     |
| II          | Cagayan Valley      | 3,613  | 3,871  | 7%     |
| III         | Central Luzon       | 4,394  | 4,631  | 5%     |
| IV-A        | CALABARZON          | 6,269  | 6,813  | 9%     |
| IV-B        | MIMAROPA            | 3,140  | 3,580  | 14%    |
| V           | Bicol Region        | 2,936  | 3,223  | 10%    |
| VI          | Western Visayas     | 3,927  | 4,219  | 7%     |
| VII         | Central Visayas     | 5,018  | 5,426  | 8%     |
| VIII        | Eastern Visayas     | 2,238  | 2,245  | 0.3%   |
| IX          | Zamboanga Peninsula | 3,288  | 3,462  | 5%     |
| X           | Northern Mindanao   | 3,969  | 4,052  | 2%     |
| XI          | Davao Region        | 4,686  | 5,027  | 7%     |
| XII         | SOCCSKSARGEN        | 3,247  | 3,433  | 6%     |
| XIII        | Caraga              | 3,895  | 3,948  | 1%     |
|             | ARMM                | 467    | 468    | 0.1%   |
| Philippines |                     | 6,346  | 6,738  | 6%     |

- To establish a clearer picture of usage of formal deposit products, there is a need to capture the number of deposit accounts in non-banks such as savings and loans associations and cooperatives. However, these data elements are not part of existing supply-side information. A demand-side survey among Filipino adults that will ask whether they have a deposit account at a formal financial institution and probe the frequency and regularity of usage is therefore critical in adequately measuring usage of deposit accounts.

#### Cross country comparison

- The number of deposit accounts with commercial banks per 10,000 adults in the Philippines lags behind its peers. It can be observed that countries with higher GDP per capita tend to have higher number of deposit accounts per 10,000 adults.



## The AFI Core Set of Financial Inclusion Indicators

- In 2011, the Alliance for Financial Inclusion (AFI)<sup>22</sup>, through its Financial Inclusion Data Working Group (FIDWG)<sup>23</sup>, published the Core Set of Financial Inclusion Indicators (“the Core Set”). The Core Set is a set of quantitative indicators that are meant to measure the most basic and fundamental aspects of financial inclusion in a country. It is a tool for guiding data collection and measurement that is intended to help policymakers develop appropriate financial inclusion policies and monitor progress over time. The Core Set also paves the way for greater consistency and comparability in measuring financial inclusion across countries.<sup>24</sup>
- With the adoption of the Sasana Accord<sup>25</sup>, AFI member countries agreed to measure their progress in financial inclusion based on common indicators as identified and quantified in the Core Set and to publicly release this information annually. As a testament of the BSP’s commitment to promote evidence-based financial inclusion policymaking and tracking of progress, this report presents the Philippines’ Core Set of Financial Inclusion Indicators:

|  | 2011   | 2012   | 2013   |
|--|--------|--------|--------|
| Adult population (in millions) <sup>a/</sup>                               | 64.3   | 65.8   | 67.3   |
| Total number of relevant administrative units <sup>b/</sup>                | 1,634  |        |        |
| <b>Access Dimension:</b>   |        |        |        |
| Total number of bank branches  | 9,015  | 9,375  | 9,884  |
| Total number of cash-in & cash-out agents                                  | 12,190 | 18,545 | 24,029 |
| Total number of cash-in & cash-out ATMs <sup>c/</sup>                      | n.a.   |        |        |
| Total number of other cash-in & cash-out access points <sup>d/</sup>       | 25,097 | 29,569 | 31,651 |
| Number of access points per 10,000 adults                                  | 7.2    | 8.7    | 9.7    |
| % of administrative units with at least one access point                   | 76.2%  | 86.7%  | 87.4%  |
| % population living in administrative units with at least one access point | 92.4%  | 96.2%  | 96.4%  |

<sup>22</sup> AFI is a global network of central banks and other financial inclusion policy making bodies in developing countries that provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies.

<sup>23</sup> FIDWG was created to explore the topic of financial inclusion data and share expertise aimed at building capacity within the AFI network in data methodologies and approaches.

<sup>24</sup> The concept note about the Core Set can be downloaded at:

<http://www.afi-global.org/sites/default/files/afi%20fidwg%20report.pdf>

<sup>25</sup> During the 2013 AFI Global Policy Forum (GPF), AFI members agreed on the Sasana Accord which aims to strengthen the effectiveness of their Maya Declaration Commitments. Through the Sasana Accord, financial inclusion policymaking and strategies will focus on evidence and data-based results to accelerate progress and clearly measure the impact of financial inclusion policies.

| Usage Dimension:  |       |       |       |
|---|-------|-------|-------|
| % of adults with at least one type of regulated deposit account <sup>e/</sup> | 26.6% |       |       |
| Number of deposit accounts per 10,000 adults                                  | 6,787 | 6,346 | 6,738 |
| % of adults with at least one type of regulated credit account <sup>f/</sup>  | 10.5% |       |       |
| Number of credit accounts per 10,000 adults                                   | n.a.  |       |       |

Notes

<sup>a/</sup> Derived from the NSO census based population projection<sup>b/</sup> Cities and municipalities<sup>c/</sup> Data on the number of ATMs that allow both cash-in/out transactions are not available.<sup>d/</sup> Other cash-in & cash-out access points include non-stock savings and loans associations (NSSLAs), non-bank financial institutions (NBFIs), pawnshops, remittance agents, money changers/foreign exchange dealers and credit cooperatives.<sup>e/</sup> The indicator was sourced from the World Bank Findex which indicated that 26.6% of Filipino adults have an account at a formal financial institution.<sup>f/</sup> The indicator was sourced from the World Bank Findex which indicated that 10.5% of Filipino adults had a loan at a formal financial institution in the past 12 months.

### The G20 Basic Set of Financial Inclusion Indicators

- In 2012, G20 leaders endorsed the Basic Set of Financial Inclusion indicators (“the Basic Set”). Brought forward by the Data and Measurement Sub-Group of the Global Partnership for Financial Inclusion (GPFI), the Basic Set builds on the AFI’s Core Set. Aside from measuring access and usage, the Basic Set also includes indicators on small and medium enterprise (SME) access to finance.<sup>26</sup>

| Categories  | Indicators  | 2011  | 2012 | 2013 |
|---|---|-------|------|------|
| Formally banked adults  | % of adults with an account at a formal financial institution                         | 26.6% |      |      |
|   | Number of deposit accounts per 1,000 adults   | 679   | 635  | 674  |
| Adults with credit by regulated institutions                                  | % of adults with at least one loan outstanding from a regulated financial institution | 10.5% |      |      |
| Formally banked enterprises   | % SMEs with deposit account at a formal financial institution <sup>g/</sup>           | 97.9% |      |      |
| Enterprises with outstanding loan or line of credit by regulated institutions | % SMEs with an outstanding loan or line of credit <sup>g/</sup>                       | 30.5% |      |      |
| Points of service   | Number of branches per 100,000 adults   | 14.0  | 14.2 | 14.7 |

<sup>g/</sup> Source: World Bank Enterprise Surveys. These surveys are administered to a sample of non-agricultural formal private firms and covered small, medium and large companies. The percentage reported is the average for small and medium enterprises.

<sup>26</sup> The concept note about the Basic Set can be accessed at:

<http://www.gpfi.org/sites/default/files/G20%20Basic%20Set%20of%20Financial%20Inclusion%20Indicators.pdf>

## AFI Mobile Financial Services (MFS) Indicators

- In 2013, AFI through its Mobile Financial Services Working Group (MFSWG) released the MFS Indicators, a tool for measuring access and usage of mobile financial services.<sup>27</sup> These indicators are part of the Second Tier Set of Financial Inclusion Indicators, a broader set of indicators which are being developed to allow policymakers to select the most useful indicators for their particular country context and level of development.<sup>28</sup>
- As the BSP promotes the broader use of MFS (through e-money) as one of the key solutions to achieve greater financial inclusion in the country, it is important that MFS indicators are collected and monitored. The table below presents the baseline figures of the Philippines' MFS indicators:

| Indicator                             | Value        | Notes   |
|---------------------------------------|--------------|---|
| MFS models                            | 3            | GCash (telco-led model)<br>Smart Money (bank-led model)<br>BanKo (hybrid model)   |
| Mobile phone population <sup>29</sup> | 94.2 million | This is the total number of mobile subscribers. However, there is an upward bias in this count because some individuals own more than 1 mobile phone. |
| MFS cash points                       | 182,637      | Registered e-money agents – 24,029<br>ATMs – 14,528<br>Point-of-sale (POS) terminals – 144,080  |
| Active MFS cash points                | 169,228      | Active e-money agents – 10,620<br>ATMs – 14,528<br>Point-of-sale (POS) terminals – 144,080  |
| MFS accounts                          | 26.7 million | Registered e-money accounts – 8,023,081<br>Cash cards – 18,967,000  |
| Active MFS accounts                   | 24 million   | Active e-money accounts – 5,352,533<br>Cash cards – 18,967,000  |

<sup>27</sup> The MFS Indicators were jointly developed by MFSWG and FIDWG.

<sup>28</sup> The guidance note about the MFS Indicators can be downloaded at:

[http://www.afi-global.org/sites/default/files/publications/mfswg\\_guideline\\_note\\_no.11\\_lo.pdf](http://www.afi-global.org/sites/default/files/publications/mfswg_guideline_note_no.11_lo.pdf)

<sup>29</sup> According to GSMA, the ratio of the total mobile connections to the total population in the Philippines is 110% (as of 2013).

| Indicator                                  | Value         | Notes  |
|--|---------------|--|
| Administrative units with MFS cash points  | 965           | Based on GCash and Banko agents only   |
| MFS types                                  | 8             | P2P, P2G, P2B, G2P, B2P, B2G, G2B, non-transactional MFS (i.e., checking the bank account balance via a mobile phone)                            |
| MFS deployments                            | 2             | 1) E-money and 2) Mobile banking   |
| Ave value (\$) of MFS transactions / month | 691.6 million | Amount of e-money transactions in 2013 is P348 billion (average of inflows and outflows)<br><br>(P365 billion/ 12 months)/ P44 = USD 659 million |
| Ave volume of MFS transactions / month     | 18 million    | Total volume of transactions in 2013 is 216,779,302.<br><br>216,779,302/12 months = 18,064,942   |

*Data as of end-year 2013*

**Box 1*****Spatial Dimension of Financial Inclusion***

Spatial data analysis has greatly improved the way financial inclusion is measured. It provides answers to important questions like “How many people are within a kilometer radius of a bank?” and “What is the spatial distribution of mobile phone users?” It addresses the limitations of standard but crude access measures (i.e., number and reach of banks, ATMs and other access points). These measures do not consider the clustering of access points and the population within city boundaries, among others. In addition, developments in spatial data analysis include transaction layers that will provide level of activities of access points and poverty density estimation. Spatial data analysis can therefore easily identify those geographies that are underserved or unserved due to distance.

Private organizations such as the Bill & Melinda Gates Foundation (BMGF) and Microfinance Information Exchange (MIX) Market are developing new tools that will help facilitate better measurement and tracking of financial access through Geospatial Information System (GIS) based methodologies. Financial Services for the Poor (FSP) Maps (financed by BMGF) and FINclusionLab (promoted by MIX) utilize high quality datasets on the location of financial service providers as well as socio-demographic data to geospatially visualize financial access. Both data sources can provide analysis using sub-national data and are distinguished from other data sources by their visualization and analytical tools.<sup>30</sup>



Displaying geospatial datasets in an easy, transparent and digestible way holds a great potential of truly assessing financial access. By using these interactive tools, policymakers, regulators, financial service providers and financial inclusion advocates can better understand and effectively reach their desired populations and markets.

<sup>30</sup> Palomas, X. M., Nielsen, K. B. and Slind, T. (2014). Mapping Financial Inclusion with FSP Maps and MIX FINclusionLab. Available at <http://www.cgap.org/blog/mapping-financial-inclusion-fsp-maps-and-mix-finclusionlab>



**Box 2*****Relationship between Access and Usage***

The number and reach of banks and other access points have certainly expanded, but has this resulted to more usage of financial products and services? To answer this question, regression analysis was performed. The number of banks per 10,000 adults was used as a measure of access while the number of deposit accounts per 10,000 adults served as a proxy for usage. To control for other factors that may have an effect on usage, several economic variables were incorporated in the regression model. Provinces were used as units of analysis since analyzing at the city/ municipal level would limit the number of variables that could be utilized in statistical modeling<sup>31</sup>. The variables in the econometric model were listed in the following table:

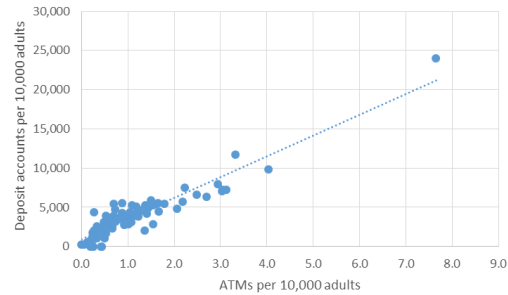
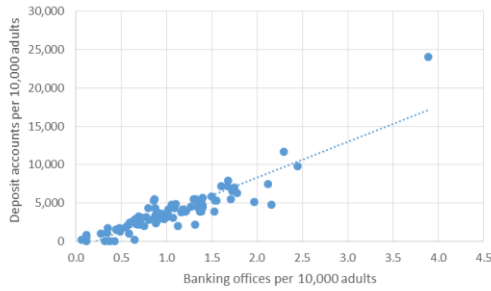
| Provincial data                                  | Variable Name   | Source and Date |
|--|-----------------|-----------------|
| Number of deposit accounts per 10,000 adults     | dep_acct_per10k | BSP (2013)      |
| Number of banking offices per 10,000 adults      | banks_per10k    | BSP (2013)      |
| Number of ATMs per 10,000 adults                 | atms_per10k     | BSP (2013)      |
| Income class                                     | income_class    | NSCB (2013)     |
| Number of cities                                 | cities          | NSCB (2013)     |
| Poverty incidence                                | poverty         | NSO (2012)      |
| Number of businesses                             | businesses      | NSO (2011)      |
| Percentage of employed individuals               | employment      | NSO (2011)      |
| Total local resources (tax and non-tax revenue)  | resources       | BLGF (2012)     |
| Annual average family income                     | family_income   | NSO (2009)      |
| Number of new residential building constructions | residential     | NSO (2012)      |

Note: NSO – National Statistics Office; NSCB – National Statistical Coordination Board; BLGF – Bureau of Local Government Finance

Looking at the correlations, it was observed that the explanatory variables have the expected signs and are highly correlated with the usage indicator.

- A clear correlation exists between number of banks and number of deposit accounts per 10,000 adults: the two variables present a strong positive correlation of 89%. Accounting for the outlier (which is NCR), the adjusted correlation between the two variables is still high at 88.6%. Similarly, the number of ATMs and the number of deposit accounts have a high correlation of 94% (including NCR) and 87.7% (without NCR).

<sup>31</sup> There were limited data available at the city/ municipality level.



- The other explanatory variables such as the number of cities, number of businesses, employment rate, amount of local resources, average family income and number of new residential building constructions, which are all measures of the level of economic activity in the province, also posed strong positive correlation with the number of deposit accounts.
- Two variables are negatively correlated with the usage indicator. One is income class of the province, wherein higher values indicate lower income class (5 - fifth class, 1 - first class). The other variable is poverty incidence which implies that provinces with higher poverty incidence levels have lower number of deposit accounts per 10,000 adults.

|                     | dep_acct_per10k |
|---------------------|-----------------|
| <b>banks_per10k</b> | <b>0.89</b>     |
| <b>atms_per10k</b>  | <b>0.94</b>     |
| cities              | 0.65            |
| poverty             | -0.62           |
| income_class        | -0.24           |
| business            | 0.84            |
| employment          | 0.81            |
| resources           | 0.75            |
| fam_income          | 0.69            |
| residential         | 0.67            |

After performing regression, the coefficients of banks and ATMs per 10,000 adults are both statistically significant. The succeeding table presents the significant variables in the regression model, as well as the predictors that turned to be not significant but have the expected signs.

|               | Coefficient | Std. Err. | t     | p-value |
|---------------|-------------|-----------|-------|---------|
| banks_per10k  | 1,965.24    | 294.99    | 6.66  | 0.000*  |
| atms_per10k   | 1,253.97    | 174.13    | 7.20  | 0.000*  |
| income_class  | -26.36      | 86.49     | -0.30 | 0.761   |
| poverty       | -2.59       | 11.04     | -0.23 | 0.815   |
| resources     | 146.82      | 26.84     | 5.47  | 0.000*  |
| fam_income    | 10.70       | 282.53    | 0.04  | 0.970   |
| constant term | 468.93      | 756.28    | 0.62  | 0.537   |

\*Significant

Among the control variables used, only the total amount of resources of the province appeared significant. While not statistically significant, it can be observed that income class and poverty have the anticipated negative effect while average family income has the

expected positive effect. The observation that financial access indicators are highly significant while the control variables are not contributing much to the variation in deposit accounts may suggest that usage is generally reinforced by access.

To obtain rough estimates of the magnitude of the effect, elasticities were computed using logarithmic transformation:

|                 | Coefficient | Std. Err. | t      | p-value |
|-----------------|-------------|-----------|--------|---------|
| log_bank_per10k | 0.62        | 0.07      | 9.44   | 0.000*  |
| log_atms_per10k | 0.33        | 0.05      | 6.21   | 0.000*  |
| constant term   | 8.22        | 0.02      | 328.95 | 0.000   |

*\*Significant*

According to the parameter estimates, a 10% increase in the number of banks per 10,000 adults is associated to a 6.2% increase in the number of deposit accounts per 10,000 adults. A 10% increase in the number of ATMs per 10,000 adults, on the other hand, is expected to result to a 3.3% increase in the per capita deposit indicator. These results support the hypothesis that an increase in bank and ATM density could positively stimulate deposits and provide indication that expanded financial access can reinforce usage of financial products and services.

## CONCLUDING NOTES

In summary, it can be stated that the reach of the Philippine financial system continues to improve. There are sustained increases in the number and reach of banks, ATMs and other financial service providers. The archipelagic nature of the Philippines poses a serious challenge to financial access, but the BSP's ground-breaking measures through micro-banking offices and e-money have contributed in addressing the physical barriers that hinder people from being included in the formal financial system.

While access to finance has improved, the BSP believes that effective access does not only mean that financial service touch points are available. Aside from physical access to financial services, these services must be affordable, of good quality and relevant to lead to actual usage that can benefit the person accessing the said service. Using available supply-side information on deposits, loans, microfinance and e-money, this report showed that there is increased usage of financial products and services. There is also indication that the increase in financial access contributed to more usage of financial products and services.

In the past, financial inclusion policies were informed mainly by anecdotal evidence and stories. While this approach has been helpful, the BSP recognizes the importance of having a reliable and robust financial inclusion data framework that would inform decision making and policy formulation. While significant progress has been made in financial inclusion measurement, there is still much work that needs to be done to create a clearer picture of financial inclusion in the Philippines.

As stated in the introduction of this report, there are more complex questions on consumer experience and consumer impact that existing supply-side information cannot capture. Moving forward, the BSP is committed to continuously improve its financial inclusion data framework by implementing demand-driven data gathering exercises so that later on there will be solid evidence to assess progress and measure impact of regulations on financial inclusion. With the continuous initiatives to improve the collection of both supply-side and demand-side information on financial inclusion, the BSP envisions that data and deeper measurement will play greater role in its financial inclusion policymaking.